

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Sherman Township	County Osceola
Fiscal Year End March 31, 2007	Opinion Date June 7, 2007	Date Audit Report Submitted to State September 6, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☒ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Letter of Significant Deficiencies	
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789	
Street Address 134 W. Harris Street		City Cadillac	State MI
Zip 49601			
Authorizing CPA Signature 	Printed Name Michael D. Cool, C.P.A.	License Number 1101023146	

SHERMAN TOWNSHIP, OSCEOLA COUNTY

TUSTIN, MICHIGAN

MARCH 31, 2007

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

MARCH 31, 2007

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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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June 7, 2007

INDEPENDENT AUDITORS' REPORT

To the Township Board
Sherman Township
Osceola County
Tustin, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sherman Township, Osceola County, Tustin, Michigan as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Sherman Township, Osceola County, Tustin, Michigan as of March 31, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 20 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sherman Township, Osceola County, Tustin, Michigan's basic financial statements. The individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

Sherman Township, a general law township located in Osceola County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Sherman Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2007.

Financial Highlights

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$576,824. Of this amount, \$281,970 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$333,569. About 84% is available for spending at the Township's discretion.
- ◆ The Township is not obligated under any long-term debt as of March 31, 2007.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general government and administration, public safety, public works, and other functions. The Township does not have any business-type activities.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements the governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township’s financial position over time. The Net Assets of the Township are \$576,824 at March 31, 2007, meaning the Township’s assets were greater than its liabilities by this amount.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

Sherman Township
Net Assets as of March 31,

	<u>Governmental Activities</u>
Assets	
Current Assets	\$ 334,042
Non Current Assets	
Capital Assets	260,476
Less: Accumulated Depreciation	<u>(17,221)</u>
Total Non Current Assets	<u>243,255</u>
Total Assets	<u><u>\$ 577,297</u></u>
Liabilities	
Current Liabilities	<u>\$ 473</u>
Net Assets	
Invested in Capital Assets	243,255
Restricted for Specific Purposes	51,599
Unrestricted	<u>281,970</u>
Total Net Assets	<u>576,824</u>
Total Liabilities and Net Assets	<u><u>\$ 577,297</u></u>

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, and equipment). The Township is not responsible for any long-term debt as of March 31, 2007. Other liabilities are minimal as of March 31, 2007.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets for the government as a whole.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

Sherman Township
Change in Net Assets
for the Fiscal Year Ended March 31, 2007

	<u>Governmental Activities</u>
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 3,658
General Revenues	
Taxes	84,798
State Grants	78,534
Interest Earnings	9,633
Other	<u>401</u>
Total Revenues	<u>177,024</u>
<u>Expenses</u>	
Legislative	4,205
General Government, Administrative	59,545
Public Safety	56,184
Public Works	5,021
Community and Economic Development	14,439
Recreational and Cultural	2,149
Other Functions	<u>11,346</u>
Total Expenses	<u>152,889</u>
Change in Net Assets	24,135
NET ASSETS - Beginning of Year	<u>552,689</u>
NET ASSETS - End of Year	<u><u>\$ 576,824</u></u>

Governmental Activities

During the fiscal year ended March 31, 2007, the Township's net assets increased by \$24,135 in the governmental funds. GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

The most significant portion of the revenue for all governmental activities of Sherman Township comes from property taxes and special assessments. The Township levied 0.9509 mills for operating purposes.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax.

The Township's governmental activities expenses are dominated by general governmental expenses that total \$59,545 of total expenses. Public safety expenses represented the next largest expense at \$56,184 of total expenses.

Financial Analysis of the Government's Funds

Governmental Funds The focus of Sherman Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Sherman Township's governmental funds reported combined ending fund balances of \$333,569. Approximately 84%, or \$281,970 constitutes unreserved fund balance. The remainder of the fund balance is reserved for specific purposes and is therefore not available for new appropriation. For example, the fund balance that is reserved for road maintenance must be used for expenditures that relate to road maintenance.

General Fund – The General Fund increased its fund balance by \$4,523 which brings the fund balance to \$281,970. The General Fund's fund balance is unreserved. All of the General Fund's functions, except for the Other Functions, ended the year with expenditures below budgeted amounts. The Other Functions differential was funded by available fund balance.

Road Fund – The Road Fund decreased its fund balance by \$138,834 which brings the fund balance to \$51,599. This balance is reserved and must be used for road maintenance.

Fire Fund – The Fire Fund fund balance remained the same at \$0. The only expenditure was for contracted fire protection services in the amount of \$54,202.

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for governmental activities as of March 31, 2007 amounted to \$243,255 net of accumulated depreciation.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

Capital assets summarized below include any items purchased with a cost greater than \$2,000 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

Sherman Township
Capital Assets as of March 31, 2007

	Governmental Activities
Buildings	\$ 55,887
Equipment and Furniture	21,716
Infrastructure	133,909
Land Improvements	21,357
Construction in Progress	27,607
	<hr/> 260,476
Less Accumulated Depreciation	<hr/> (17,221)
Net Capital Assets	<hr/> \$ 243,255 <hr/>

Long-Term Debt. Sherman Township has no obligation for any long-term debt as of March 31, 2007.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues.

These factors were considered in preparing the Township's budgets for the 2007-08 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Sherman Township at 3925 W. 21 Mile Road, Tustin, Michigan 48688.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

STATEMENT OF NET ASSETS
MARCH 31, 2007

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 305,276
Receivables	
Taxes	8,818
External Party (Fiuduciary Fund)	1,364
Due from Other Governments	<u>18,584</u>
Total Current Assets	<u>334,042</u>
<u>CAPITAL ASSETS</u>	
Buildings	55,887
Equipment and Furniture	21,716
Infrastructure	133,909
Land Improvements	21,357
Construction in Progress	<u>27,607</u>
	260,476
Less Accumulated Depreciation	<u>17,221</u>
Net Capital Assets	<u>243,255</u>
TOTAL ASSETS	<u>577,297</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	211
Payroll Taxes and Withholdings	<u>262</u>
Total Current Liabilities	<u>473</u>
<u>NET ASSETS</u>	
Invested in Capital Assets	243,255
Restricted for Road Maintenance	51,599
Unrestricted	<u>281,970</u>
TOTAL NET ASSETS	<u>\$ 576,824</u>

The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2007

		PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	TOTAL GOVERNMENTAL ACTIVITIES	
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>						
Legislative	\$ 4,205	\$ 0	\$ 0	\$ 0	\$ (4,205)	
General Government, Administrative	59,545	3,658	0	0	(55,887)	
Public Safety	56,184	0	0	0	(56,184)	
Public Works	5,021	0	0	0	(5,021)	
Community and Economic Development	14,439	0	0	0	(14,439)	
Recreation and Cultural	2,149	0	0	0	(2,149)	
Other Functions	11,346	0	0	0	(11,346)	
Total Governmental Activities	152,889	3,658	0	0	(149,231)	
<u>GENERAL REVENUES</u>						
Taxes					\$ 84,798	
State Grants					78,534	
Interest Income					9,633	
Other					401	
Total General Revenues					173,366	
Change in Net Assets					24,135	
<u>NET ASSETS</u> - Beginning of Year					552,689	
<u>NET ASSETS</u> - End of Year					\$ 576,824	

The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
MARCH 31, 2007

	GENERAL FUND	ROAD FUND	FIRE FUND	TOTALS
<u>ASSETS</u>				
Cash	\$ 228,141	\$ 77,135	\$ 0	\$ 305,276
Taxes Receivable	2,841	0	5,977	8,818
Due from Other Governments	18,584	0	0	18,584
Due from Other Funds	32,877	0	0	32,877
Total Assets	<u>\$ 282,443</u>	<u>\$ 77,135</u>	<u>\$ 5,977</u>	<u>\$ 365,555</u>
 <u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 211	\$ 0	\$ 0	\$ 211
Payroll Taxes and Withholdings	262	0	0	262
Due to Other Funds	0	25,536	5,977	31,513
Total Liabilities	<u>473</u>	<u>25,536</u>	<u>5,977</u>	<u>31,986</u>
 <u>FUND BALANCE</u>				
Reserved for:				
Road Maintenance	0	51,599	0	51,599
Unreserved				
Undesignated	281,970	0	0	281,970
Total Fund Balance	<u>281,970</u>	<u>51,599</u>	<u>0</u>	<u>333,569</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 282,443</u>	 <u>\$ 77,135</u>	 <u>\$ 5,977</u>	 <u>\$ 365,555</u>

The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2007

Total Fund Balance for Governmental Funds	\$	333,569
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Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Buildings	\$	55,887	
Equipment and Furniture		21,716	
Infrastructure		133,909	
Land Improvements		21,357	
Construction in Progress		27,607	
Accumulated Depreciation		(17,221)	243,255

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	576,824

The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP, OSCEOLA COUNTY

TUSTIN, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2007

	GENERAL FUND	ROAD FUND	FIRE FUND	TOTALS
<u>REVENUES</u>				
Taxes	\$ 30,596	\$ 0	\$ 54,202	\$ 84,798
Licenses and Permits	538	0	0	538
State Grants	78,534	0	0	78,534
Charges for Services	3,120	0	0	3,120
Interest and Rents	7,319	2,314	0	9,633
Other Revenues	401	0	0	401
Total Revenues	120,508	2,314	54,202	177,024
<u>EXPENDITURES</u>				
Legislative	4,205	0	0	4,205
General Government	81,864	0	0	81,864
Public Safety	1,982	0	54,202	56,184
Public Works	0	141,148	0	141,148
Community and Economic Development	14,439	0	0	14,439
Recreation and Cultural	2,149	0	0	2,149
Other Functions	11,346	0	0	11,346
Total Expenditures	115,985	141,148	54,202	311,335
Net Change in Fund Balance	4,523	(138,834)	0	(134,311)
<u>FUND BALANCE</u> - Beginning of Year	277,447	190,433	0	467,880
<u>FUND BALANCE</u> - End of Year	\$ 281,970	\$ 51,599	\$ 0	\$ 333,569

The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2007

Net change in Fund Balance - Total Governmental Funds	\$ (134,311)
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Capital Outlay	167,306
Depreciation Expense	<u>(8,860)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 24,135</u></u>

The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
MARCH 31, 2007

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ <u>1,364</u>
<u>LIABILITIES</u>	
Due to General Fund	\$ <u>1,364</u>

The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Sherman Township is a general law township located in Osceola County which operates under the direction of an elected township board. Under the criteria established by generally accepted accounting principles, the Township has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Sherman Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue funds* account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

The *Fire Fund* accounts for revenue sources that are legally restricted to expenditure for fire protection.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

The *Road Fund* accounts for revenue sources that are legally restricted to expenditure for road maintenance.

Additionally Sherman Township reports the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities or twelve months or less from date of acquisition.

(I) The Township has authorized the Treasurer to invest funds as follows:

- (a) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (II).
- (c) In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- (d) In repurchase agreements consisting of instruments listed in subdivision (a).
- (e) In bankers' acceptances of United States banks.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

- (f) In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
- (g) Mutual funds registered under the Investment Company Act of 1940, Title I chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.
 - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- (h) In obligations described in subdivision (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 125.512.
- (i) In investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.11 to 129.118.
- (j) In the investment pools organized under the Local Government Investment Pool Act, 1986 PA 121, MCL 129.141 to 129.150.
- (II) A public corporation that invests its funds under subsection (I) shall not deposit or invest the funds in a financial institution that is not eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- (III) Assets acceptable for pledging to secure deposits of public funds are limited to assets authorized for direct investment under subsection (I).
- (IV) As used in this section, "financial institution" means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.

2. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and two-thirds of the county taxes are levied and due July 1, and become delinquent after September 14. The remaining county school taxes and all other taxes are levied and due December 1, and become delinquent after February 14. Collections of school and county taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2006 taxable valuation of Sherman Township totaled \$27,102,425, on which ad valorem taxes levied consisted of 0.9509 mills for Sherman Township operating purposes. The levy raised approximately \$25,768 for operating purposes.

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as required. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

Property, plant and equipment of the primary government, are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Land and Building Improvements	20
Infrastructure	20
Equipment and Furniture	5-10

5. *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The Township currently has no long-term obligations.

6. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. *Budgetary Information*

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

adopted on March 13, 2006 or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Funds with expenditures in excess of appropriations were as follows:

	<u>APPROPRIATIONS</u>		<u>EXPENDITURES</u>
Fire Fund			
Public Safety	\$ 0	\$	54,202
Road Fund			
Public Works	0		141,148
General Fund			
Other Functions	10,460		11,346

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Township's deposits are on deposit with Citizens Bank and Lake Osceola State Bank in Tustin, Michigan.

Investment rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

Foreign currency risk. The Township is not authorized to invest in investments, which have this type of risk.

Credit risk. The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

Concentration of credit risk. The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2007, \$39,388 of the government's bank balance of \$306,767 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

B. Receivables

Receivables as of year end for the government's individual major funds are as follows:

	General	Road	Fire	Total
Receivables				
Taxes	\$ 2,841	\$ 0	\$ 5,977	\$ 8,818
Due from Other Governments	18,584	0	0	18,584

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the fiscal year, the Township did not have any deferred revenue.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Construction in Progress	\$ 20,367	\$ 27,607	\$ 20,367	\$ 27,607
Total capital assets, not being depreciated	20,367	27,607	20,367	27,607
Capital assets, being depreciated				
Buildings	55,887	0	0	55,887
Equipment and Furniture	16,916	4,800	0	21,716
Infrastructure	0	133,909	0	133,909
Land Improvements	0	21,357	0	21,357
Total capital assets, being depreciated	72,803	160,066	0	232,869
Less accumulated depreciation for:				
Buildings	2,794	1,118	0	3,912
Equipment and Furniture	5,567	1,873	0	7,440
Infrastructure	0	5,021	0	5,021
Land Improvements	0	848	0	848
Total accumulated depreciation	8,361	8,860	0	17,221
Total capital assets, being depreciated, net	64,442	151,206	0	215,648
Governmental activities, capital assets, net	\$ 84,809	\$ 178,813	\$ 20,367	\$ 243,255

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	\$ 3,839
Public Works	5,021
	<u>\$ 8,860</u>

Construction Commitments:

At March 31, 2007 the government had an uncompleted construction contract in the Road fund. The remaining commitment on this construction contract was approximately \$26,743. Construction in progress for the 140th Avenue project is \$27,607.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2007, were:

	<u>DUE FROM OTHER FUNDS</u>	<u>DUE TO OTHER FUNDS</u>
General Fund	\$ 32,877	\$ 0
Road Fund	0	25,536
Fire Fund	0	5,977
Fiduciary Funds		
Current Tax Collection	0	1,364
	<u>\$ 32,877</u>	<u>\$ 32,877</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

E. Long-Term Debt

At March 31, 2007, the Township was not obligated for any long-term debt.

F. Fund Balance Reserves

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balance in various funds. This reserve is detailed in the following schedule:

FUND BALANCE/NET ASSETS

Reserved

 Special Revenue Funds

 Road Fund

 Road Maintenance \$ 51,599

G. Fire Fund

These financial statements show the transactions of the township Fire Fund as they would have occurred if all fire monies received for current and delinquent taxes were sent to the fire fund before being sent to the Tustin Area Fire District. The payments are being sent to the Tustin Area Fire District directly from the Current Tax Fund and from the General Fund due to the substantial savings of time and bookkeeping procedures.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

B. Retirement Plan

The Township has a defined contribution pension plan with Municipal Retirement Systems, Inc. which covers Township employees who have satisfied the eligibility requirements. Each employee becomes eligible for coverage on the first policy anniversary date which the employee reaches age 18. Each employee is 100% vested upon entering the plan. An employee's normal retirement age is age 65 or the 5th anniversary of the first day of the plan year in which participation in the plan commenced.

The formula for determining contributions is based on an employee's annual compensation. The Township has elected to contribute 10% of compensation to the plan annually. Past service credit is calculated as 3% of current compensation for each year of past service to a maximum of 10 years.

Township contributions to the plan for 2006-2007 amounted to \$4,195. In addition the Township paid a \$185 service fee. The contribution was based on 2005 calendar year wages of \$41,947. All employees currently are covered by the plan.

C. Property Taxes

The Township levied 2.9509 mills in tax on state taxable value of \$27,102,425 on the 2006 tax roll. The 2.9509 mill levy was for the following purposes:

Fire Protection	2.0000
General Operations	<u>0.9509</u>
	<u><u>2.9509</u></u>

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

D. Interest Income and Expense

For the year ended March 31, 2007 interest income and expense was as follows:

	Interest	
	Income	Expense
General Fund	\$ 7,049	\$ 0
Road Fund	2,314	0
 TOTAL	 \$ 9,363	 \$ 0

E. Joint Fire District

The Township is a member of the Tustin Area Fire District. The Fire District is a joint venture of Burdell, Dover and Sherman Townships created to provide fire protection to member townships. As stated in NOTE IV. C, Sherman Township levies 2.0000 mills to support the Fire District. The following financial information was taken from the Fire District's March 31, 2006, audited financial statements:

Total Assets	\$ 651,798
Investment in Fixed Assets – Net of Accumulated Depreciation	345,413
Fund Balance	305,837
Total Revenues	164,229
Total Expenditures	80,854
Change in Net Assets	83,375

A copy of these audited financial statements may be obtained upon request from the Fire District treasurer.

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2007

	<u>GENERAL FUND</u>			<u>ROAD FUND</u>			<u>FIRE FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>									
Taxes	\$ 26,114	\$ 26,114	\$ 30,596	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 54,202
Licenses and Permits	1,015	1,015	538	0	0	0	0	0	0
State Grants	100,495	100,495	78,534	0	0	0	0	0	0
Charges for Services	700	700	3,120	0	0	0	0	0	0
Interest and Rents	4,000	4,000	7,319	0	0	2,314	0	0	0
Other Revenues	575	575	401	0	0	0	0	0	0
Total Revenues	132,899	132,899	120,508	0	0	2,314	0	0	54,202
<u>EXPENDITURES</u>									
Legislative	6,943	6,943	4,205	0	0	0	0	0	0
General Government	97,243	97,243	81,864	0	0	0	0	0	0
Public Safety	1,983	1,983	1,982	0	0	0	0	0	54,202
Public Works	18,200	18,200	0	0	0	141,148	0	0	0
Community and Economic Development	24,878	24,878	14,439	0	0	0	0	0	0
Recreation and Cultural	6,750	6,750	2,149	0	0	0	0	0	0
Other Functions	10,460	10,460	11,346	0	0	0	0	0	0
Contingency	500	500	0	0	0	0	0	0	0
Total Expenditures	166,957	166,957	115,985	0	0	141,148	0	0	54,202
Net Change in Fund Balance	(34,058)	(34,058)	4,523	0	0	(138,834)	0	0	0
<u>FUND BALANCE</u> - Beginning of Year	252,166	252,166	277,447	0	0	190,433	0	0	0
<u>FUND BALANCE</u> - End of Year	\$ 218,108	\$ 218,108	\$ 281,970	\$ 0	\$ 0	\$ 51,599	\$ 0	\$ 0	\$ 0

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
MARCH 31, 2007

	BALANCE			BALANCE	
	4/1/2006	ADDITIONS	DEDUCTIONS	3/31/2007	
<u>ASSETS</u>					
Cash in Bank	\$ 4,121	\$ 834,925	\$ (837,682)	\$ 1,364	
<u>LIABILITIES</u>					
Due to Other Funds	3,207	75,971	(77,814)	1,364	
Due to Other Governments	684	754,383	(755,067)	0	
Due to Other Organizations and Individuals	230	4,571	(4,801)	0	
TOTAL LIABILITIES	\$ 4,121	\$ 834,925	\$ (837,682)	\$ 1,364	

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

STATEMENT OF 2006 TAX ROLL
MARCH 31, 2007

TAXES ASSESSED

County			
Operating	\$	173,543	
Commission on Aging		21,475	
Voted Road Patrol		27,055	
Voted EMS		26,846	
State Education Tax		162,586	
Township			
Operating		25,768	
Fire		54,202	
Schools			
Pine River Area Schools		195,777	
Marion Public Schools		58,659	
Cadillac Area Public Schools		6,650	
Intermediate School		<u>161,036</u>	\$ 913,597

TAXES COLLECTED

County			
Operating	\$	158,300	
Commission on Aging		19,107	
Voted Road Patrol		24,072	
Voted EMS		23,886	
State Education Tax		150,154	
Township			
Operating		22,926	
Fire		48,225	
Schools			
Pine River Area Schools		175,749	
Marion Public Schools		52,597	
Cadillac Area Public Schools		5,737	
Intermediate School		<u>143,277</u>	<u>824,030</u>

SHERMAN TOWNSHIP, OSCEOLA COUNTY
TUSTIN, MICHIGAN

STATEMENT OF 2006 TAX ROLL
MARCH 31, 2007

TAXES RETURNED DELINQUENT

County

Operating	\$ 15,243
Commission on Aging	2,368
Voted Road Patrol	2,983
Voted EMS	2,960
State Education Tax	12,432

Township

Operating	2,842
Fire	5,977

Schools

Pine River Area Schools	20,028
Marion Public Schools	6,062
Cadillac Area Public Schools	913

Intermediate School	<u>17,759</u>	<u>\$ 89,567</u>
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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
www.bcbcpa.com

June 7, 2007

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board
Sherman Township
Osceola County
Tustin, Michigan

During the course of our audit of the basic financial statements of Sherman Township for the year ended March 31, 2007, we noted the following:

Budgeting Procedures

Total expenditures in the Township's General Fund, Other Functions exceeded budgeted appropriations. The Township should amend the budget increasing total budgeted appropriations prior to incurring excess expenditures.

The Township also needs to adopt budgets for both Fire and Road funds.

Public Act 621 states that the budget document that the Township adopt include the following financial information:

The actual results from the prior year

An estimate of the current year results

The proposed budget for the upcoming year

Amounts for contingencies, if appropriate

The amount of fund balance accumulated through the end of the current year, and the amount expected at the end of the upcoming year, after applying the budgeted revenues and expenditures.

Credit Card Policy

It was noted that there was no formal credit card policy. We recommend a formal policy be adopted that prohibits the personal use of credit cards and requires sufficient supporting documentation for all charges.

Reimbursements

During our audit we discovered some isolated reimbursements which lacked supporting documentation. All reimbursements should include proper supporting documentation available for review by the Township Board.

We would like to thank the board for its continued confidence in our firm and to thank the township officers for their cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
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June 7, 2007

To the Township Board
Sherman Township
Osceola County
Tustin, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sherman Township as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Sherman Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the a governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We considered item number 1 below to be material weaknesses, as defined above. Additionally, we identified the following deficiencies in internal control that we consider to be significant deficiencies.

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.